

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

QUARTERLY REPORT UNDER SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarter ended June 30, 2001 Commission file number 0-5559

FIRST FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Texas
(State or other jurisdiction of
incorporation or organization)

74-1502313
(I.R.S. Employer Identification
No.)

800 Washington Avenue, Waco, Texas
(Address of principal executive offices)

76701
(Zip Code)

Registrant's telephone number, including area code (254) 757-2424

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No _____ .

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, No Par Value
(Class)

173,528
(Outstanding at July 31, 2001)

FORM 10-QSB

FIRST FINANCIAL CORPORATION
JUNE 30, 2001

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First Financial Corporation
Consolidated Balance Sheet
June 30, 2001
(Unaudited)

Assets	

Cash and cash equivalents	\$ 1,024,490
Restricted cash	838,506
Accounts receivable	1,551,132
Marketable investment securities	296,405
Real estate held for investment, at cost	444,000
Mortgage loans	26,102,073
Investment in and advances to affiliated companies	437,792
Property and equipment	743,764
Other assets	<u>1,113,745</u>
Total Assets	\$ 32,551,907
=====	
Liabilities and Stockholders' Equity	

Notes on line of credit	25,631,303
Accounts Payable	1,001,608
Estimated reserve for losses under servicing agreements	236,929
Other liabilities	<u>697,455</u>
Total Liabilities	<u>27,567,295</u>
Minority interest	<u>1,389,375</u>
Stockholders' equity:	
Common stock - no par value; authorized 500,000 shares; issued 183,750 shares, of which 10,222 shares are held in treasury shares	1,000
Additonal paid-in capital	518,702
Retained earnings	<u>3,110,844</u>
	3,630,546
Less: Treasury stock - at cost	(35,309)
Net unrealized loss on marketable investment securities	<u>-</u>
Total Stockholders' Equity	<u>3,595,237</u>
Total Liabilities and Stockholders' Equity	\$ 32,551,907
=====	

See accompanying notes to consolidated financial statements.

First Financial Corporation
Consolidated Statements of Income
Three months and Six months ended June 30, 2001 and 2000
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2001	2000	2001	2000
Revenues:				
Loan administration	\$ 2,351,195	\$ 1,828,881	\$ 4,515,564	\$ 2,828,867
Interest income	653,034	307,437	1,054,354	546,402
Other income	<u>259,875</u>	<u>254,714</u>	<u>490,937</u>	<u>444,024</u>
Total Revenues	<u>3,264,104</u>	<u>2,391,032</u>	<u>6,060,855</u>	<u>3,819,293</u>
Expenses:				
Salaries and related expenses	1,629,697	1,327,493	3,137,081	2,352,690
Interest expense	556,128	249,048	939,370	408,553
Provision for losses under servicing agreements	-	-	-	(34,000)
Other operating expenses	<u>1,034,721</u>	<u>913,176</u>	<u>1,902,954</u>	<u>1,600,478</u>
Total Expenses	<u>3,220,546</u>	<u>2,489,717</u>	<u>5,979,405</u>	<u>4,327,721</u>
Income before income taxes, minority interest, equity in earnings (loss) of affiliates	43,558	(98,685)	81,450	(508,428)
Federal income taxes	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Income before minority interest	43,558	(98,685)	81,450	(508,428)
Minority interest in net loss (income)	<u>(28,754)</u>	<u>56,444</u>	<u>(64,897)</u>	<u>240,516</u>
Income before equity in earnings (loss) of affiliates	14,804	(42,241)	16,553	(267,912)
Equity in earnings (loss) of affiliates	<u>33,489</u>	<u>109,850</u>	<u>7,055</u>	<u>123,226</u>
Net income	48,293	67,609	23,608	(144,686)
Other comprehensive income:				
Unrealized holding gains (losses)	<u>45,030</u>	<u>10,252</u>	<u>40,648</u>	<u>4,378</u>
Net income	<u>\$ 93,323</u>	<u>\$ 77,861</u>	<u>\$ 64,256</u>	<u>\$ (140,308)</u>
Income Per Common Share	<u>\$0.54</u>	<u>\$0.45</u>	<u>\$0.37</u>	<u>(\$0.81)</u>

See accompanying notes to consolidated financial statements.

First Financial Corporation
Consolidated Statement of Cash Flows

(Unaudited)	
Six Months Ended June 30,	
2001	2000
-----	-----
Cash flows from operating activities:	
Net income (loss)	\$ 64,255 \$ (140,308)
Adjustments to reconcile net income(loss) to net cash used by operating activities:	
Depreciation	130,198 142,805
Provision for losses under servicing agreements	- (34,000)
Equity in (income) loss of affiliates	(7,055) (123,226)
Realized (gains) losses on marketable investment securities	(1,181) (2,473)
Net (increase) decrease in accounts receivable	15,553 (139,425)
Net (increase) decrease in other assets	235,890 (92,301)
Net increase (decrease) in accounts payable	(90,529) 533,436
Net increase (decrease) in other liabilities	(25,154) (128,523)
Increase in minority interest	64,868 (240,515)
(Increase) decrease in restricted cash used in operating activities - net	(277,982) (161,951)
Mortgage loans funded	(303,225,701) (144,324,698)
Mortgage loans sold	292,960,812 138,131,534
Increase in mortgage loans participations sold	- 5,941,494
Other	10,588 143,963
Net cash provided (used) for operating activities	<u>(10,145,438)</u> <u>(494,188)</u>
Cash flows from investing activities:	
Proceeds from sale of marketable investment securities	10,924 10,113
Purchases of marketable investment securities	(32,504) (78,470)
Unrealized holding (gains) losses	- (4,378)
Purchase of property and equipment	(65,148) (114,259)
Principal collections on mortgage loans	49,336 129,207
Amortization of discount on mortgage loans purchased	- (12,397)
(Advances to) repayments from affiliates	- 99,600
Net cash provided (used) for investing activities	<u>(37,392)</u> <u>29,416</u>
Cash flows from financing activities:	
Payment on notes payable	<u>10,338,494</u> <u>-</u>
Net cash used for financing activities	<u>10,338,494</u> <u>-</u>
Net increase (decrease) in cash and cash equivalents	155,664 (464,772)
Cash and cash equivalents at beginning of year	<u>868,826</u> <u>1,122,846</u>
Cash and cash equivalents at end of period	<u>\$ 1,024,490</u> <u>\$ 658,074</u>
	=====
Supplemental Disclosure of Cash Flow Information	
Interest Paid	\$ 813,478 \$ 358,408
	=====

See accompanying notes to consolidated financial statements.

FIRST FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

PART I – FINANCIAL INFORMATION

1 - Basis of Presentation

The financial information included herein for First Financial Corporation, and all of its wholly owned and majority owned subsidiaries (the "Company") is unaudited; however, such unaudited information reflects all adjustments which are, in management's opinion, necessary for a fair presentation of the financial position, results of operations and statement of cash flows for the interim periods. In preparing these financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenue and expense for the period. Actual results could differ significantly from those estimates. Minority interest represents ownership of other entities in the net assets and net earnings of Key Group, Ltd. ("Key Group").

The results of operations and changes in cash flow for the six-month period ended June 30, 2001 are not necessarily indicative of the results to be expected for the full year.

Certain reclassifications were made to prior periods to ensure comparability with the current period.

2 - Earnings Per Share

Earnings per common share were computed by dividing net income by the weighted average number of shares outstanding.

3 - Income Taxes

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of the loan loss reserve for financial and income tax reporting. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred taxes also are recognized for operating losses that are available to offset future taxable income and tax credits that are available to offset future federal income taxes. The Company has approximately \$5,900,000 in available net operating loss carryforward benefits for financial statement purposes to offset future income, if any.

4 - Contingencies

Substantially all of the conventional pools of manufactured home loans serviced by the Company, approximately \$438,000 at June 30, 2001, were sold to investors with recourse. The recourse provisions typically require the Company to repurchase delinquent loans at the unpaid balances plus accrued interest, or replace delinquent loans with another loan which is current. Further, several of the agreements require the Company to establish and maintain cash reserve accounts. Deposits are periodically made to the accounts equal to a specified percent of the outstanding loans. The accounts may be used to cover deficiencies from foreclosure and liquidation of delinquent pooled mortgage loans. Such cash reserve accounts totaled \$10,495 and are included in restricted cash at June 30, 2001.

Item 2. Management's Discussion and Analysis of Results of Operations and Financial Condition

Results of Operations

The Company had net income of \$64,256 for the six months ended June 30, 2001 compared to net loss of \$140,308 for the same period in 2000. Loan administration revenues were \$4,515,564 for the first six months of 2001 compared to \$2,828,867 for the same period of 2000. The increase in loan administration revenues is primarily due to increased loan origination fees from the Company's residential mortgage loan operations. During the six months ended June 30, 2001, First Preference Mortgage Corp. ("FPMC"), a third tier subsidiary of Key Group, funded approximately \$303.2 million in new residential mortgage loans compared to approximately \$144.3 million during the same period in 2000. The increase in mortgage loan fundings is primarily due to decreases in the residential mortgage interest rates during the six months ended June 30, 2001.

For the six months ended June 30, 2001, Key Group had a net income of \$137,890 compared to a net loss of (\$511,041) for the same period in 2000. This significant improvement by Key Group is primarily due the increase in residential mortgage loan originations as discussed above. The minority interest in the net income of Key Group amounted to (\$64,897) for the six months ended June 30, 2001 compared to a minority interest in the net loss of \$240,516 for the comparable period in 2000. The minority interest represents the ownership of other entities in the Key Group net income or net loss. The Company's share of the net income (loss) of Key Group was \$73,000 and (\$270,525) for the six months ended June 30, 2001 and 2000, respectively.

Interest income for the six months ended June 30, 2001 amounted to \$1,054,354 compared to \$546,402 for the same period in 2000. This increase is primarily due to the significant increase in new residential mortgage loans originated during the first six months of 2001 as compared to 2000 as discussed above. FPMC earns interest from the date the mortgage loan is closed until the date the mortgage loan is sold to investors.

Salaries and related expenses decreased to \$3,137,081 for the six months ended June 30, 2001, compared to \$2,352,690 for the same period in 2000. This increase is primarily due to an increase in the amount of commission expense resulting from the increased retail residential mortgage loan

originations. Four new retail branches were acquired during the second quarter of 2000. During the six months ended June 30, 2001, retail mortgage loan originations amounted to approximately \$77.5 million compared to \$51.6 for the same period in 2000.

For the six months ended June 30, 2001, interest expense amounted to \$939,370 compared to \$408,553 for the same period in 2000. The significant increase in interest expense for the six months ended June 30, 2001 is primarily due to increased utilization of the Company's mortgage warehouse line of credit resulting from the approximately 210% increase in new residential loan originations for the six months ended June 30, 2001 as discussed above. In addition, the weighted average interest rate for the six months ended June 30, 2001 was approximately 6.75% compared to 7.15% for the same period in 2000.

During the six months ended June 30, 2001, the provision for losses under servicing agreements was (\$0) resulting in a balance in the reserve for losses under servicing agreements of \$236,929 at June 30, 2001. For the six months ended June 30, 2000, the Company had a negative provision for losses under servicing agreements of (\$34,000) which resulted in a balance in the reserve for losses under servicing agreements of \$235,998 at June 30, 2000. As previously discussed, under the terms of certain of its servicing agreements, the Company is at risk for any credit losses and costs of foreclosure, net of credit insurance proceeds, if any, sustained on default of the borrower. The Company has analyzed its servicing portfolio characteristics, including servicing portfolio balance, loss experience, maturity and aging of the loans and the credit insurance coverage on the loans. Based on this analysis, it is the Company's belief that its reserve for losses under servicing agreements is adequate for potential losses attributable to the servicing agreements.

The consolidated statements of income for the six month ended June 30, 2001 reflect equity in the net income of affiliates of \$7,055 compared to net income of \$123,226 for the same period in 2000. During 2000, the affiliates realized gains on the sale of certain real estate.

Other comprehensive income consists of unrealized holding gains (losses) on marketable investment securities net of income taxes. For the six months ended June 30, 2001, unrealized holding gains amounted to \$40,648 compared to unrealized holding gains of \$4,378 for the six months ended June 30, 2000.

Financial Condition

At June 30, 2001, the Company's total assets were \$32,551,907 compared to \$6,649,048 at June 30, 2000. Included in the Company's total assets are the assets of Key Group which amounted to \$29,553,076 and \$3,822,352 at June 30, 2001 and 2000, respectively. The Key Group assets at June 30, 2001 consisted primarily of cash and cash equivalents of \$976,413, mortgage loans of \$26,021,420, property and equipment of \$919,419 and accounts receivable, prepaid expenses and other assets of \$1,635,824. The minority interest in the net assets of Key Group at June 30, 2001 amounted to \$1,389,375 compared to \$1,425,136 at June 30, 2000. At June 30, 2000, FPMC financed its mortgage lending activities using a loan participation financing structure under which the financial institution would purchase a 98% participation in the mortgage loans funded by

FPMC. Under this arrangement, FPMC's balance sheet reflected net mortgage loans held for sale of \$309,273 and the \$15,547,487 in participations sold was carried as an off balance sheet item. At June 30, 2001, FPMC financed its mortgage lending activities using a line of credit financing structure under which the financial institution would advance up to 99% of the amount to be paid by the investor, but not to exceed the unpaid principal of the loan. Under this arrangement, FPMC's balance sheet includes net mortgages held of sale of \$25,901,021 and loans under the line of credit of \$25,631,303.

On consolidated basis, cash and cash equivalents (including restricted cash) were \$1,862,996 at June 30, 2001. Included therein was cash and cash equivalents for Key Group of \$976,413 and Apex Lloyds Insurance Company of \$840,667. The cash flow of Key Group is only available to the Company to the extent that cash is received in the form of partnership distributions. The cash flow of Apex Lloyds Insurance Company is only available to the Company as allowed by state insurance regulations.

As more fully discussed in the Annual Report Form 10-KSB for the year ended December 31, 2000, FPMC has a mortgage warehouse line of credit with a financial institution totaling \$50,000,000 which expired June 30, 2001. This agreement was extended until August 31, 2001. This agreement includes certain financial covenants including requirements to maintain FPMC stockholders' equity above \$2,700,000 and adjusted-tangible-net worth above \$2.5 million. Also, FPMC's total liabilities to adjusted tangible net worth may never exceed 15 to 1. First Preference Mortgage Corp. is in the process negotiating a renewal of this agreement which expires August 31, 2001.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The Company is involved in routine litigation incidental to its business, both as a plaintiff and a defendant. Management of the Company, after consulting with legal counsel, feels that liability resulting from the litigation, if any, will no have a material effect on this financial position of the Company.

Item 4. Submission of Matters to a Vote of Security Holders

The annual meeting of the shareholders was held on May 15, 2001, pursuant to an information statement dated April 17, 2001, furnished by the Board of Directors to the Shareholders of Record.

At the meeting, the following were elected to the Board of Directors: John Carl Hauser, David W. Mann, Robert A. Mann, Walter J. Rusek, Mary Hyden Mann Hunter, Allen B. Mann, James Lee Motheral and Joseph Edward Walker.

In other matters, the shareholders approved the selection of Pattillo, Brown & Hill, Certified Public Accountants, as auditors for the fiscal year ended December 31, 2001 and ratified and approved all actions taken by the Company's directors and management during the preceeding year. No other matters were voted upon.

Item 6. Exhibits and Reports on Form 8-K

No Form 8-K was filed during the quarter ended June 30, 2001.

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

First Financial Corporation

Date August 14, 2001

/s/ David W. Mann
David W. Mann
President
Duly Authorized Officer and
Principal Financial Officer

Date August 14, 2001

/s/ Annie Laurie Miller
Annie Laurie Miller
Executive Vice President and
Principal Accounting Officer

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